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DOMESTIC GRAIN POLICY AND THE GATT



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SCIENCE AND TECHNOLOGY DIVISION

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Cat. No. YM32-2/214E

ISBN 0-660-13491-8

**CE DOCUMENT EST AUSSI
PUBLIÉ EN FRANÇAIS**

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DOMESTIC GRAIN POLICY AND THE GATT

CANADA'S GRAIN POLICY LEGACY

Most of Canada's grain policies were designed in the early 1970s to encourage production in order to respond to world food shortages. These policies remain in place, even though for the most part global food production in the 1980s has tended to exceed consumption.⁽¹⁾ High levels of world grain production and stocks, coupled with weak demand, have reduced prices so that in real terms, prices of wheat and barley declined by 58% and 49% respectively during this decade.⁽²⁾

Despite these market indications, price support systems, especially within the U.S. and the E.E.C. (European Economic Community), disguised the need for production cutbacks. Similarly, even though Canada has relied more on income stabilization, deficiency payments and transportation assistance than on price supports, such payments to the grains and oilseeds sector in this country have risen from an average of 4% during the period 1981-84 to 37% of gross receipts in 1987. Any visible production declines in Canada can be traced to natural causes.

Now Canada finds it must re-evaluate its domestic grain assistance policies in the light of the present global grain situation and GATT (General Agreement on Tariffs and Trade) proposals to relieve it. One of the major objectives of the Uruguay Round of GATT negotiations is

(1) Saskatchewan Wheat Pool, Issues and Options 1988-89, Background Discussion Paper, Fall 1988, p. 2.

(2) Canada West Foundation, Hard Times, Hard Choices: The Prairie Grain Economy in Transition, September 1988, p. 7.

agricultural trade reform. Reforms are largely directed at reducing trade distortions caused by domestic and export subsidies and improving access by limiting tariff and non-tariff barriers. Canada generally supports these reforms. Because 80% of this country's grain production is exported (compared to about 40% in the U.S. and 20% for the E.E.C.), Canada is particularly vulnerable to any international subsidies operating in its overseas grain markets. Also, Canadian governments have limited fiscal capacity to compete in export subsidies.(3)

The role of subsidization and how it is defined - a central feature of the GATT talks - raises queries about government intervention in agriculture and the nature of assistance to offset production or market risk, and crop failure.

The problem is that producers of primary agricultural commodities periodically experience uncontrollable and sudden changes in production conditions, costs and market prices. Assistance such as price support and stabilization has been developed to provide a safety net to producers, to help stabilize the agricultural and food sector, and to maintain farm income. The Canadian government is reluctant to stop providing protection to offset production and market risks as long as it does not distort international trade, on which Canada is so dependent.

Given that market forces will continue to dictate the direction of the agricultural economy, governments cannot hope to alter that direction substantially or to counter an economic cycle. The dilemma remains - government can attempt to mitigate to some degree the adverse impact of market changes but if this delays or prevents market responses, is it desirable in the long run? As well, in designing these support programs to combat the income problem, not much thought has been given to what they prompt other countries to do or what their impact may be on other businesses dependent on a healthy prairie agriculture.(4)

(3) Ibid., p. 3.

(4) Economic Council of Canada, Au Courant, "Conference on Prairie Agriculture - The Future of Prairie Agriculture," Vol. 9, No. 1, 1988, p. 7.

Adjustments to make existing programs more responsive to the growing competitiveness of the international market and to particularly adverse climatic circumstances have been under discussion in this country for the best part of the 1980s.

In the meantime, the severity of the situation in the grains and oilseeds sector over the past three years has led to massive government assistance, mostly of an ad hoc nature, to meet both natural and price disasters. Designed with the expectation that prices will eventually rebound, interim assistance is based on the assumption that it will tide producers over until a more satisfactory economic equilibrium is reached. Ad hoc assistance to relieve the severe drop in income experienced by prairie farmers cannot, however, correct the structural imbalance of too much productive capacity worldwide. On the one hand, if a country like Canada cuts back production without other countries doing so, it might suffer long-term loss of market share.⁽⁵⁾ On the other hand, if production is maintained, prices will not rebound, prolonging the difficulty in the sector. Even if desired structural adjustments do occur with an accompanying new price equilibrium, government intervention may not necessarily direct excess resources into productive activity.⁽⁶⁾

Ad hoc programs may put money directly into the hands of farmers, thereby giving a lift to the sagging rural economy. However, while general areas of disaster can be identified, it is virtually impossible to direct the help to those individuals with the greatest loss. The uncertainty of whether or not the program will be implemented also tends to discourage long-term planning. This approach as well places unexpected demands on government budget resources.⁽⁷⁾

(5) P. Finkle and W. Hartley Furtan, Net Farm Income Insurance: A New Direction for Farm Policy, Paper presented at the symposium "Decoupling: The Concept and Its Future in Canada," Ottawa, 11-12 February 1988, p. 3.

(6) Ibid., p. 4.

(7) Canada, First Ministers' Conference - November 1985, Final Report of Working Group on Disaster Relief, August 1986, p. 2.

It is not only ad hoc programs that are coming under scrutiny. Many of the ongoing programs appear to have outlived their usefulness. Researchers have found for instance that one of the more successful of the grains and oilseeds programs, the Western Grain Stabilization Program (WGSP), has had the unintended effect of increasing feed grain prices in western Canada and consequently reducing the viability of Canadian livestock production.(8)

Each of such programs was introduced to provide protection of a different sort, either weather-related or to counter income variability. The basis for and level of payment vary regionally and the different programs are not necessarily integrated. There needs to be general agreement among producers on the desirability of government intervention to meet present circumstances and whether it should be targeted or universal. Should this country's plethora of agricultural programs be replaced by one policy? Can one policy be designed that will suit requirements of regions and diverse commodities? What criteria should dictate the form of federal government assistance?(9)

Any proposed changes to domestic programs must obviously conform to international criteria coming out of the present GATT Round. The next section looks at these requirements and examines changes in process to existing programs as well as proposals for new programs.

MEETING THE GATT OBJECTIVES

There is a growing international consensus that agricultural trade is in disarray and that subsidy levels are out of hand. Worldwide, countries are reported to be providing a combined total of U.S. \$250 billion annually in farm support. These trade difficulties, fuelled by large budget deficits, are encouraging governments to seek programs which are more appropriate and less costly, bearing in mind the need to retain

(8) Economic Council of Canada, Au Courant, Vol. 9, No. 1, p. 7.

(9) Canada West Foundation (1988), p. 23.

acceptable farm income levels. At issue is the need for all countries to reorient their policies in order to reduce gradually all forms of direct and indirect output-related support. Also needed are urgent actions to strengthen discipline in international trade practices and to improve the balance in agricultural markets.

The multilateral trade negotiations have encouraged a domestic policy examination which focuses on giving support to producers directly, instead of indirectly through the commodities they produce. The 1988 drought has added urgency to the examination of support policies and has directed concern to the adequacy of the disaster relief programs and the need for a national disaster response that is more than ad hoc.

In the event that government assistance is considered valid under certain assumptions, how should it be designed to be most effective from the individual's point of view, having regard to the need to protect the agricultural economy from trade-distorting effects? What should be the goals?

At the minimum, four criteria are seen as critical in treading the fine line between meeting domestic and international requirements; assistance must:

- reduce variability and risk;
- weigh universality versus targeted programs;
- maintain production neutrality; and
- assess separate versus amalgamated approach to risk management.

Most existing programs have concentrated on reducing some aspect of **income variability or risk**. Agricultural income risks arise from variability in prices and yields. The problem of dealing with these uncontrollable factors is that assistance may reduce risk but when it masks market signals, it may retard necessary structural change or innovation. The tendency of these risks to affect large numbers of producers adds to the complication of devising programs that will aid the individual producer without being too costly.

Universality has always been controversial, as it assumes the right of every farmer to receive some benefit based on participation rather than on financial need. Those who benefit under universal farm schemes, however, may in fact be richer than average, experiencing little or no economic losses. Financial participation may automatically ensure payment or may do so only if need is also present; either case may attract criticism.

The least distorting way to support farm incomes is to make payments to farmers independent of the level of production, thereby guarding **production neutrality**. Such payments would not affect production or consumption and would therefore not impinge on international trade. Farmers could still choose to raise their overall income by increasing production or by choosing to produce value-added commodities. The program would be neutral to any such management decision since support would be based on the difference between past and current performance. The individual would remain free to try whatever combination of farming production, marketing or management seemed appropriate for the circumstances.(10)

In practice, a distortion-free method of making direct payments is extremely difficult to design; most transfers have some effect on output, since they influence decisions about whether to enter or leave the industry, about work or leisure, and about saving, investment and consumption. Hence, the challenge becomes one of finding an income transfer mechanism which is less distorting than those currently used and yet meets national objectives of maintaining farm income.(11)

The general consensus at this time appears to be that programs should concentrate on the specific situation of the economic unit in agriculture rather than on the more traditional commodity approach, whereby a number of programs operate - sometimes at odds - to correct

(10) Finkle and Furtan (1988), p. 13.

(11) The International Agricultural Trade Research Consortium, Designing Acceptable Agricultural Policies, Summary Report presented at Symposium, Annapolis, Maryland, 19-20 August 1988, p. 4.

problem areas. It has been suggested that an **amalgamated approach** having a single safety net program could fill the needs covered by the present diverse programs. Is this feasible? What elements would such a program need to contain in order to provide protection that would match or improve upon that in existing programs?

NEW DIRECTIONS

A. Adapting Existing Policies

Several existing programs will be described since one of the options under consideration is to adapt existing programs or amalgamate them.

The **Western Grain Stabilization Program (WGSP)**, which covers a basket of closely-related commodities, has been in place since 1976 as a measure to stabilize the incomes of grain farmers in times of low returns. Producers contribute 4% of annual eligible grain sales and the federal government contributes 6% to a fund which pays producers when aggregate income falls below the preceding five-year average. Over the entire period of the program, the WGSP has returned \$8 for every dollar of eligible levy paid into the program.⁽¹²⁾ Almost \$1.4 billion was paid out in 1986-87, and \$950 million in 1987-88.

Changes to the program in 1988 increased the number of crops covered, raised the levy rates, allowed reinstatement without penalty, and changed the formula for setting future producer levy rates. To hold these rates within a range of 2% to 4%, the federal government announced in December 1987 a \$750 million write-down of the accumulated deficit of \$1.5 billion. The National Grains Bureau reports that participation in the program has risen from 85% to 92% since the changes to the Act were made in August of 1988.

Despite these changes, it is not clear that the program could remain actuarially sound in the face of payouts typical of the past

(12) Canada West Foundation (1988), p. 20.

three years. More financial involvement on the part of the provinces has been suggested, as has the merging of this program with crop insurance to raise the level of risk coverage. Premiums could vary to match coverage, and payments could be based either on the average cost of production or on net income over the previous three to five years, rather than on the present acreage basis.(13)

Other suggestions would incorporate into the plan annual deficiency payments and payments to compensate for the end, as of 1 August 1988, of the two-price wheat system. (Payments of \$87 million in 1988-89 compensated grain farmers who received the export price for the loss of the higher domestic price.(14))

Crop insurance provides protection against losses from crop failures resulting from weather and other natural hazards. Since 1959, this federal-provincial program has operated on a cost-shared basis. Payments to the prairie provinces reached \$279 million in the 1987-88 crop year, partly as a result of the widespread drought in that region, and rose to \$309 million in the 1988-89 crop year. Coverage is broad, encompassing 87 crops across the country. The advent of crop disasters over several years has led to a call for better coverage and improved protection, most likely to be achieved through higher premiums and more provincial involvement.(15) In response to the disastrous effects of the 1984 and 1985 droughts, a multi-year provision has already been added but more improvements are forecast. Crop insurance has been under review for the last several years by both levels of government, with the aim of forestalling the need for ad hoc payments for crop losses. In the meantime, additional drought payments to livestock and crop producers are becoming the norm. In 1988, special drought assistance of \$1 billion was announced, apart from the ad hoc assistance provided to offset unfavourable market conditions.

(13) Ibid., p. 22, 34.

(14) Ibid., p. 22.

(15) Saskatchewan Wheat Pool (1988), p. 5.

In July 1988, federal and provincial ministers approved a set of policy and operational guidelines for future crop insurance. The federal government indicated its willingness to consider improvements to crop insurance legislation, provided the provinces were ready to renegotiate existing cost-sharing arrangements.

Early in 1989, a discussion paper was released to stimulate discussion and seek concurrence on the content and schedule of program and legislative changes. The need for stabilization programs and crop insurance to complement each other was identified. For instance, in the west, crop insurance was integrated into the Western Grain Stabilization Program with the 1988 amendments, whereas this is not the case with the Agricultural Stabilization Act, operative in the east. Another matter was the inconsistency of government subsidization of crop insurance premiums with the GATT negotiations.

Proposed changes which range from altering the regulations to a complete redesign of the program are on the table. Variable level coverage with optional features and administrative improvements are among some of the suggestions. Amendments to federal crop insurance legislation are targeted for the 1990 crop year.⁽¹⁶⁾

Another support measure is provided in the transporting of grain. Between 1897 and 1983, grain exports were subsidized to the tune of half a cent per tonne per mile. In 1983, steps were taken to bring rail revenues for shipping grain into line with actual costs. Under the Western Grain Transportation Act, the federal government pays the annual Crow Benefit to the railways and, through a cost-sharing arrangement with shippers of eligible commodities, shippers pay the first 6% of grain rail costs. Based on an average volume of 31.6 million tonnes in 1987-88, the total federal government share (including inflation) of grain freight costs is estimated at \$700 million.⁽¹⁷⁾

(16) Agriculture Canada, Federal-Provincial Crop Insurance Review Discussion Paper Summary, May 1989, p. 1.

(17) Canada West Foundation (1988), p. 21.

It has been suggested that the increased transportation costs could become part of WGSP calculations, so that reduced income would trigger larger payments from an expanded WGSP.⁽¹⁸⁾ To be equitable, all producers would have to participate, with coverage as provided under the WGSP for both domestic and export-bound grains, oilseeds and special crops. The federal government would pay the Crow Benefit (plus inflation) into the WGSP annually, providing an extra financial source for the financially-troubled fund.⁽¹⁹⁾ A rationalization of crops covered and approaches under the two Acts would be required.

In December 1986, the severity of grain price decreases led the federal government to introduce a temporary measure to relieve depressed prices and offset the export subsidies of other countries. Under the **Special Canadian Grains Program** (SCGP), \$1 billion was earmarked to assist farmers affected by low grain prices. A further \$1.1 billion was announced in December 1987, 80% of which went to grain producers in the three prairie provinces. Payments were calculated on the basis of seeded acreage of eligible crops and representative regional yields derived from crop insurance data to a maximum of \$25,000 per producer. Summerfallow acres were also included when calculating payments for farmers in western Canada.

The disadvantages of this type of ad hoc approach were described in the preceding section. Payments discouraged diversification despite weak grain and oilseeds markets. Despite changes to the 1987-88 program, payments remained unrelated to production losses. There is also a danger that ad hoc approaches can become institutionalized if harsh conditions make it politically unacceptable to discontinue aid. In any case, this type of assistance is not likely to be offered in the future to farmers who opt against crop insurance or WGSP coverage.⁽²⁰⁾

(18) Saskatchewan Wheat Pool (1988), p. 5.

(19) Canada West Foundation (1988), p. 22.

(20) Ibid., p. 21-22, 24.

B. Designing Acceptable New Policies

Because of the present emphasis on finding a simplified and internationally acceptable solution, the remainder of this paper concentrates on the suggestions of various groups for replacing existing programs. While existing programs generally reduce income risk and are universal, none of them meets the criterion discussed above of production neutrality, the one that is so crucial in the present multilateral negotiations.

One proposal is that producers would be offered price guarantee contracts for a period of 8 to 10 years. Producers would have individual accounts into which levies would be paid. The program would provide an individual with a **guaranteed support price** for a pre-determined number of tonnes of grain based on the average in a base period indexed for changes in production costs. If the price guarantee were linked to production costs as opposed to market prices, the program would have the potential to introduce long-term price distortion.⁽²¹⁾

Utilizing an Agricultural Stabilization Act (ASA) model to negotiate tripartite agreements for the various commodities has been suggested. Levies would be established for the two levels of government and for producers. Crop insurance indemnities would be eligible for stabilization payments. An increased level of coverage and better protection in prolonged adverse market conditions would be part of the program.⁽²²⁾ While targeting payments to the local mix of crops would be beneficial, stabilizing one commodity rather than a basket of commodities would be less production neutral.⁽²³⁾

Adhering to this country's preference for stabilizing farm returns would be a proposed **farm net revenue stabilization program** for the

(21) Canada, National Grains Bureau, Grain Safety Net Options, Agriculture Canada, December 1988, p. 6.

(22) Ibid., p. 4.

(23) Canada, National Grains Bureau, Grain Safety Net Review, Amended Version, May 1989, p. 10.

livestock and crop sectors rather than for a particular commodity, which has been the historical approach. It would operate like a more broadly-based Western Grain Stabilization Program. If eligibility continued to be tied to production, such a program would not solve the problem of over-production during periods of low market prices.(24)

Unless a separate fund was set up for each farmer, it would not help individual cash flow problems. The government's percentage contribution to this fund would depend upon the amount invested by the individual from his income gains. Payouts to a defined maximum in poor years would be drawn from funds accumulated in good years.

Such an individual approach is being promoted by an industry/government group, Grains 2000, which was asked by the Minister for Grains and Oilseeds to look into income insurance. Grains 2000 published a report, entitled The Road Not Taken, in December 1988.(25) The program proposed by Grains 2000 would replace crop insurance, Western Grain Stabilization and the Crow Benefit, and would be designed similarly to Registered Retirement Savings. Producers would contribute 5% of their gross receipts to an annual limit of \$10,000, which would be tax deductible and matched by federal funds. In low income years, the producer could draw on funds accumulated.(26) If the taxpayer had no taxable income, the payout would be equal to the participant's current year contributions. The payout would be the difference between the current year's margin (qualifying sales minus cash costs) and the average of the previous five years' margin. Payouts would be taxable income. Retiring farmers could either be paid one-fifth of the balance in the account each year over a five-year period or the balance accumulated in the fund at retirement could be withdrawn and treated as a tax-free capital gain.(27)

(24) Saskatchewan Wheat Pool (1988), p. 7.

(25) Grains 2000, The Road Not Taken: An Opportunity for the Canadian Grains and Meat Industry, December 1988.

(26) Saskatchewan Wheat Pool (1988), p. 7.

(27) Economic Council of Canada, Handling the Risks, Report on the Prairie Grain Economy, Supply and Services Canada, Ottawa, 1988.

Another option being proposed by the National Grains Bureau is a **full cost of production guarantee**. This would apply to each commodity and would include the cost of operator's labour, land, buildings, equipment and interest and all cash costs. Payments would be made whenever the market price was below the cost of production. Government(s) and producer levies would be based on historical price patterns and the current balance in the fund.(28)

In a proposal to stabilize **individual farm gross revenue**, support prices would be established for individual crops as in an ASA approach. Producers would enrol seeded acres, which, when combined with area yields, would provide a gross revenue guarantee for each crop. An aggregate gross revenue guarantee would be reached for each farm from the sum of all crops. If gross value of production fell below the guarantee for the farm, a payout would be triggered. Crop insurance indemnities would be considered income and levy level would depend on crop insurance participation. Because it would depend on farm performance, the program would be better targeted to individual loss.(29)

Another proposal is for a **guaranteed annual income**. If actual farm income fell below a certain defined minimum level, government payments would be triggered. Assuming a fair minimum income could be chosen, this option might still not be attractive to farmers, who see it as a welfare payment. It might prove difficult to choose a level that would help keep in business vulnerable yet viable family farms, but not uneconomic ones.(30) The proposal might target government support where needed but at a low level of net farm income.

A variation on this concept has been suggested by the Economic Council of Canada.(31) In particularly adverse times, should the provincial average farm income drop below a certain defined level (for

(28) National Grains Bureau (1989), p. 11.

(29) Ibid., p. 14.

(30) Finkle and Furtan (1988), p. 9.

(31) Economic Council of Canada, Handling the Risks (1988), p. 75.

example, 80% of the average of the past five years), a special **family income disaster assistance program** could trigger graduated cash relief to families whose total income stayed below the rural poverty line of \$14,000.

There is considerable interest in a **net farm income insurance program**. It would cover all commodities but the focus would be on any reductions in net farm income of individual units as a result of prices, drought, flood, or animal disease. The income of farmers would be assured at a given level, based on past economic performance such as average net income over the past five years. The average used in the calculations could be extended to 10 years if the program paid out to a large number of producers in three consecutive years.(32)

Payments would be triggered in any year net income from all farm operations was below 90% of the difference between gross receipts and cash expenses calculated in real terms. The insurance could cover approximately 75% of the loss up to a defined maximum. Cash benefits would be paid out only to those suffering losses, so that with fewer recipients the average payment would tend to be more. This approach would avoid the stigma of a targeted program or a guaranteed annual income and at the same time make more money available to those who needed it than would an aggregate payout program such as the WGSP. Provinces with a less diversified economy, such as Saskatchewan with its dominant grain industry, are thought to do better under an insurance scheme.(33)

Income insurance is based on the concept that risks for individual producers can be pooled, since all insured parties are not likely to suffer losses at the same time or place. This is not true of the agricultural sector, however, where a general decline of income is likely to occur across a whole geographic area or within an entire sector. To discourage short-term coverage related to short-term price conditions, there would probably need to be some controls over entry and exit since a high level of participation would be a prerequisite to making the program viable.

(32) Saskatchewan Wheat Pool (1988), p. 7.

(33) Finkle and Furtan (1988), p. 20.

Premiums would need to be high enough to offset the costs of the program. It has been suggested that farmers pay 3% of gross farm receipts as an annual premium, or that premiums could vary to suit the level of coverage desired.⁽³⁴⁾ The Economic Council advocates a matching contribution by the federal government.⁽³⁵⁾ Unless governments picked up a share of the costs, there might not be sufficient incentive to join. Then there is the issue of what costs should be included in the program. Should premiums reflect differences in risk? What proportion of the premium could be expected from government if the matching contribution proposal was not implemented?

Some of these questions have been addressed in a U.S. study on income insurance conducted in 1983. A Task Force on Farm Income Protection was mandated by the 1981 U.S. Farm Bill to explore the possibilities of farm income insurance for agricultural producers as an acceptable alternative to existing farm programs. In its report, entitled Farm Income Protection Insurance,⁽³⁶⁾ the Task Force advised against substitution of farm income insurance for other support programs at that time and advocated a three-year pilot project on income insurance for a selected commodity. This has not taken place, principally because those who favour government assistance prefer price support while those who oppose assistance do not support any form of government intervention. The Task Force determined that, at least initially, in order to maintain an actuarially sound program, federal premium subsidization would be required.

In establishing the basis for payment, the Task Force raised questions about the determination of a normal income. If this were to be determined individually, the farmer's income would be measured against his own past performance, not regional yields or prices. Presumably under this individual approach, it would not be necessary to limit the commodities

(34) Ibid., p. 14.

(35) Economic Council of Canada, Handling the Risks, p. 75.

(36) U.S. Congress, Farm Income Protection Insurance Task Force, Farm Income Protection Insurance, A Report to the U.S. Congress, June 1983, Executive Summary, p. iv.

covered since the farmer would determine the mix most suitable for himself. If his income declined by poor production choices, so would his coverage. Nevertheless, there appears to be a need to build into this program conservation requirements to prevent production of crops unsuited to certain areas or the development of marginal lands.

Although the insurance scheme is not intended to discourage innovation, it could have that effect. Protection of income sufficient to cover only some portion of variable costs would not permit farmers to continue operation while experiencing losses over several years. This might tend to encourage the "tried and true" since there is also the concern that covering all costs might subsidize risk-taking. The program obviously should not compete with existing programs or cost more than any it replaced.

CONCLUSIONS

Looking at the new approaches at present being considered, to what extent do they meet the four criteria outlined above? These are the minimum requirements for a program to be acceptable to GATT objectives.

A **guaranteed support price**, whether on an individual or a tripartite basis, would reduce income variability and risk. In the latter case, it would have the advantage of universality. Its main other advantage would be a control upon production if the target prices were to be linked to reducing present marginal acreage. Commodity price stabilization would not necessarily lead, however, to income support, since stabilization might only assist a portion of the producer's income. Also, because a price program would be commodity-based, it would fail to maintain production neutrality and is consequently not a preferred program within the GATT framework. This is particularly true of any price guarantee linked to cost of production rather than to market prices.

The **farm net revenue stabilization program** aims to replace all existing assistance by one program which would subsidize farm income. Whether implemented on a sectoral or an individual basis, it would be

decoupled from any commodity unless eligibility were to be linked to production. The success of this program would depend on its acceptability to farmers and to the Canadian public. One program would be more visible to the Canadian taxpayer who must subsidize the government portion of the program. In turn, this amount would depend on the ability of the farmer to contribute to the fund in profitable times. At the minimum, for the first few years there would likely be a need to continue ad hoc assistance until the fund or funds grew to the extent that they could support any more income downturns in the prairie grain economy. The proposal would depend on tax changes not at present available to any other sector. The tax benefits attached to the program would be advantageous only to those farmers with taxable income.

A program with an **individual farm gross revenue guarantee** would be neutral to grain since all production would be covered. Since payments would be tied to production, the potential for price distortions would exist. The proposal does not consider the impact of costs of production on stability of income.

A **guaranteed annual income** could protect small family farms from bankruptcy and provide support to those farmers who have the most need. This form of assistance would meet the criteria of risk reduction, universality, and production neutrality. Even apart from the fact that the level of assistance would not necessarily be sufficient to help families with severe debt loads, however, this is not a concept that has been accepted at the Canadian societal level, let alone for one sector. Farmers would also likely find it a distasteful form of assistance.

A **farm income insurance program** would reduce risk for the individual who took out the insurance. It would be tailored to meet individual needs. Because cash benefits would be based on the losses in net cash farm income rather than on losses on the sale of particular commodities, the program would remain production neutral. Although this direction offers the potential of simplifying the present assistance regime by replacing existing programs with one program, it could itself also be administratively complex. If government is to be involved, an individual account system would be required to handle each account. If government is

not to be involved, costs would likely be prohibitively high for all participants. This approach is the one preferred by those wishing to adhere to GATT objectives.

The dialogue on these options is continuing, with farm leaders having met with government representatives in Winnipeg 25-26 January 1989 to review them. The accord reached at the GATT on 8 April 1989 in Geneva on a price freeze and on work towards subsidy reductions and increased import access is bound to accelerate the pressure on domestic policymakers to find assistance solutions that meet GATT requirements. There also remains an impetus to reduce government expenditures in this area, find equitable solutions and meet sector objectives without major adverse side effects.(37)

In the ongoing review of crop insurance, the emerging concept of a universal base coverage for all producers under a cost-sharing arrangement, and for producer-funded additional coverage, is also being discussed in relation to a grain safety net. While farm sector discussions continue, the outcome awaits the publication of a ministerial agricultural policy review, which, building on the National Agriculture Strategy, is expected to define federal support parameters more explicitly.

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(37) Grains 2000 (1988), p. 150.

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